

Workers' remittances: a pivotal role in Pakistan's economy

Abdus Sattar | 21th Feb 2025



Over the past five decades, Pakistan's workers' remittances (WRs) have surged from US\$0.14 billion in 1970 to US\$30 billion in FY24, with expectations to reach US\$35 billion in FY25. During this period, total WRs exceeding US\$500 billion have been remitted into the economy.

The share of WRs in GDP has increased from 2 percent in the 1970s to 10 percent in FY24. These remittances have strengthened the country's foreign exchange reserves, contributing 30 percent to 60 percent of the total reserves, covering the trade deficit by 25 percent to 60 percent, and supporting debt servicing by 10 percent to 60 percent.

Additionally, WRs filled the current account deficit (CAD) by about 5 percent to 10 percent during the 1970s and 1980s, a share that exDuring the 1970s and 1980s, approximately 50 percent to 60 percent of WRs were utilized for household consumption, while 20 percent to 25 percent were invested in real estate and the housing sector.

Over time, the share allocated to household consumption declined to 30 percent to 40 percent during the 2010s and 2020s, as more WRs were directed toward real estate (30 percent to 35 percent) and SMEs (15 percent to 20 percent).

Investments in education and healthcare also grew, reaching 10% to 15 percent and 8 percent to 12 percent, respectively, in the 2020s. Meanwhile, the share of WRs in agriculture declined from 10 percent to 15 percent in the 1970s to 5 percent to 8 percent in the 2020s.

WRs have also played a crucial role in poverty alleviation, contributing to a 15 percent to 40 percent reduction in poverty levels among recipient households. Punjab and KPK recorded 15 percent to 20 percent higher per capita income than regions with lower remittance inflows.

Estimates indicate that WRs lifted 5 to 7 million Pakistanis out of poverty and significantly improved the living standards of recipient households over the past five decades.

Currently, over 9 million Pakistanis reside abroad. In the 1970s, Pakistan encouraged large-scale labour migration to the Gulf region

due to the oil boom, primarily consisting of low- and semi-skilled workers employed in the construction and domestic sectors.

During the 1980s and 1990s, the Gulf region remained a major destination for Pakistani labour migrants, while skilled workers and professionals began migrating to Europe and North America.

The late 1990s and early 2000s saw the rise of the information technology (IT) and financial sectors in the West, attracting Pakistani professionals. As migration patterns diversified in the 2010s, new diaspora hubs emerged, including Australia and Turkey.

Over time, migration patterns shifted, with an increasing outflow of skilled workers. Around 10 million Pakistanis have emigrated in the past two decades. In 2023, the majority (46 percent) of Pakistani migrant workers registered abroad were unskilled, while 37 percent were skilled.

The percentage of professionals increased from 2 percent to 5 percent, while highly educated emigrants remained stable at 3 percent. However, the Gulf remains the core migration hub, hosting over 5.5 million Pakistani expatriates. In Europe, the UK remains the most established destination for the Pakistani community (over 1.5 million), primarily from Punjab, AJK, and KPK.

Over the past five decades, Pakistan's migration policies have evolved in response to economic needs and global migration trends. In the 1970s, Pakistan actively promoted labour migration to the Gulf region. However, migration policies often lacked long-term planning for migrant welfare and reintegration.

During the 1990s and early 2000s, Pakistan faced challenges related to irregular migration, human trafficking, and the outflow of skilled professionals due to limited opportunities at home.

Post-9/11 security concerns led to stricter visa regimes and increased scrutiny of Pakistani migrants globally, impacting labour mobility. Recent migration policies aim to regulate overseas employment and establish digital platforms to facilitate safe migration.

Despite government efforts, gaps remain in protecting migrant rights, addressing illegal migration, and curbing informal remittance channels.

Over the past five decades, the exact figures of informal remittance inflows have remained elusive. However, estimates suggest that informal transfers amounted to less than US\$1 billion during the 1970s, 1980s, and 1990s. In the 2000s, this figure ranged between US\$1.2 billion and US\$3.2 billion. By the 2010s, it had increased to US\$3.5 billion to US\$7.0 billion, and by the 2020s, it had further expanded to US\$5.8 billion to US\$9.3 billion.

The sustainability of WRs could pose a significant challenge for Pakistan in the future due to geopolitical uncertainties in the Gulf region and evolving domestic employment policies in host countries.

Pakistan's heavy reliance on the Gulf region for WRs, accounting for over 50 percent of inflows, underscores the risk of concentrating remittance sources in a single region. Diversification is necessary for long-term sustainability.

Pakistan has a young population, with over 64 percent under the age of 30. The current youth unemployment rate stands at 11 percent. Approximately 70 percent of domestic employers face difficulties in finding a skilled workforce, highlighting a mismatch between education and employment opportunities.

Meanwhile, Europe anticipates an annual labour shortage of over two million workers due to aging and negative population growth, with an expected worker shortage of 44 million by 2050.

The USA projects a shortage of four million healthcare professionals by 2026. Through effective labour policies, Pakistan can capitalize on these opportunities by sending its educated and skilled youth to workforce-deficient countries.

Pakistani expatriates have become the lifeline of the economy. Therefore, the government should consider measures to protect migrants' rights, dignity, health, safety, and income security through an effective labor policy.

Providing loans to young job seekers abroad could be a beneficial initiative for young professionals. The Pakistani government should adopt a holistic migration policy for youth, focusing on a market-driven, educated, and skilled workforce.

Educational institutions, particularly vocational training institutes, must align their programmes with national and global labour market demands, emphasizing fields such as health, IT, hospitality, and construction.

Furthermore, stabilising exchange rates, narrowing the gap between open market and inter-bank rates, and expanding digital payment initiatives could potentially increase WRs to between US\$40 billion and US\$50 billion.

Achieving this requires a robust network among Pakistani expatriates, government agencies, financial and academic institutions, research organizations, and relevant industries.

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abdussattar@pide.org.pkpanded to 40 percent to 60 percent of the CAD during the 2020s.

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